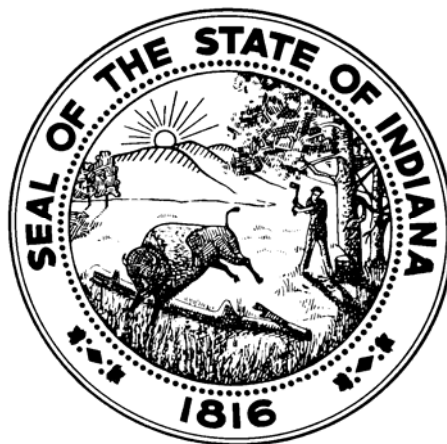


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

EXAMINATION REPORT  
OF  
INDIANA STATE ARMORY BOARD  
STATE OF INDIANA  
July 1, 2001 to June 30, 2003





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## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Adjutant General	Major General Robert J. Mitchell	01-13-97 to 11-04-01
Adjutant General	Major General George A. Buskirk, Jr.	11-05-01 to 03-10-04
Adjutant General	Major General R. Martin Umbarger	03-11-04 to 01-10-05
President	Major General Robert G. Moorehead, Retired	01-12-81 to 01-10-05



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA STATE ARMORY BOARD

We have examined the Schedule of Receipts, Disbursements and Cash and Investment Balances of the Indiana State Armory Board for the period of July 1, 2001, to June 30, 2003. The Indiana State Armory Board's management is responsible for the schedule. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Receipts, Disbursements and Cash and Investment Balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the cash transactions of the Indiana State Armory Board for the years ended June 30, 2002 and 2003, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

June 10, 2004

INDIANA STATE ARMORY BOARD  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
For The Years Ended June 30, 2002 and 2003

	<u>2002</u>	<u>2003</u>
Cash and Investments, July 1	\$ 7,857,641	\$ 7,421,962
Operating Receipts:		
Federal Reimbursements	6,245,548	5,854,772
Interest Income	332,622	194,304
Rental Income	414,654	474,911
Sales	84,959	94,914
Miscellaneous Reimbursements	<u>238,623</u>	<u>172,568</u>
Total Receipts	<u>7,316,406</u>	<u>6,791,469</u>
Operating Disbursements:		
Services by Contract	4,926,826	3,920,788
Materials, Parts and Supplies	303,257	342,001
Equipment	195,260	218,769
Land, Buildings and Improvements	297,234	223,366
Other	<u>35,920</u>	<u>41,716</u>
Total Operating Disbursements	<u>5,758,497</u>	<u>4,746,640</u>
Transfers to Primary Government	<u>1,993,588</u>	<u>2,553,155</u>
Total Disbursements	<u>7,752,085</u>	<u>7,299,795</u>
Total Receipts Over (Under) Disbursements	<u>(435,679)</u>	<u>(508,326)</u>
Cash and Investments, June 30	<u>\$ 7,421,962</u>	<u>\$ 6,913,636</u>

The accompanying notes are an integral part of the financial schedule.

INDIANA STATE ARMORY BOARD  
NOTES TO SCHEDULE

Note 1. Introduction

The Indiana State Armory Board was established under the laws of the State of Indiana (IC 10-16-3) to provide, manage and care for armories for the use of the military and naval forces of Indiana. Revenues are received from federal reimbursements, state appropriations, rental of properties, interest on investments and other miscellaneous sources.

Note 2. Restatement

The beginning balance of cash and investments reported for the Indiana State Armory Board as of July 1, 2001, has been restated to include the beginning balances of cash and investments held at each of the seventy (70) local armory boards throughout the state, as follows:

<u>Cash and Investments - July 1, 2001</u>	
Indiana State Armory Board	\$ 7,526,425
Local Armory Boards	<u>331,216</u>
Total Cash and Investments	<u><u>\$ 7,857,641</u></u>

In addition, the results of operations of each of the local armory boards has been included in the amounts reported as receipts and disbursements for the years ended June 30, 2002 and 2003.

Note 3. Fund Accounting and Basis of Accounting

The Indiana State Armory Board uses the cash basis of accounting to report on its cash and investments and the results of its operations.

The accompanying schedule is prepared on the basis of cash receipts and cash disbursements. Operating receipts and disbursements are cash inflows and outflows related to the daily operations of the Indiana State Armory Board. The cash basis of accounting differs from accounting principles generally accepted in the United States in that receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the schedule.

Note 4. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

INDIANA STATE ARMORY BOARD  
EXAMINATION RESULTS AND COMMENTS  
April 30, 2004

EMPLOYEE WAGES TREATED AS CONTRACTOR PAYMENTS

The Local Armory Boards pay fees to personnel who provide custodian and/or security services (custodian fees) for armory rental functions that occur outside of the normal operational hours of the armories. Many of the personnel being paid custodian fees are Indiana state employees and are actively receiving wages on the State's payroll.

The Indiana State Armory Board treats the payments of custodian fees as payments to independent contractors not subject to employment taxes and reports the payments on Federal Form 1099-MISC for payments of \$600 or more per person each year. Fees paid for these services totaled approximately \$160,000 to 140 individuals during calendar 2002 and \$170,000 to 190 individuals during calendar 2003.

The Indiana State Armory Board should treat custodian fees paid to Indiana state employees as wages subject to employment taxes and other wage-dependent benefits. Only payments of custodian fees to non-employees should be reported on Federal Form 1099-MISC.

"Wages subject to Federal employment taxes include all pay that you give to an employee for services performed." (Internal Revenue Service Publication 15)

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

EXCESSIVE FUNDS RETAINED

We calculated that the required balance of funds needed for a two month period of operations to average less than \$90,000. The amount accumulated by the Local Armory Boards is in excess of \$300,000.

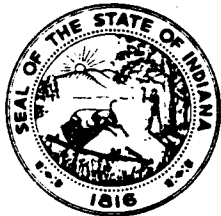
Allowing the Local Armory Boards to maintain balances at the local level in excess of their needs contributes to a smaller return on investment and an increased opportunity for misappropriation, fraud and theft.

Per IC 10-16-4-7(c), when funds are not needed for the operation, repair and maintenance of the armory, the state armory board may order the funds turned over to the state armory board. The transferred funds may be used for the benefit of other armories of the state or of the national guard of the state or expended as a whole.



INDIANA STATE ARMORY BOARD  
EXIT CONFERENCE

The contents of this report were discussed on October 13, 2004, with Major General R. Martin Umbarger; and retired Colonial David Shorter. The official response has been made a part of this report and may be found on Pages 8 through 15.



REPLY TO  
ATTENTION OF

**STATE OF INDIANA  
MILITARY DEPARTMENT**

OFFICE OF THE ADJUTANT GENERAL  
2002 SOUTH HOLT ROAD  
INDIANAPOLIS, INDIANA 46241-4839

JFHQ-IN-CO

20 October 2004

MEMORANDUM FOR State Board of Accounts, ATTN: Mr. John Rihm, 3002 W. Washington Street, Room E418, Indianapolis, Indiana 46204-2765

SUBJECT: Audit, State Armory Board, 13 October 2004


1. Reference State Armory Board Audit results and comments out-briefed to Major General R. Martin Umbarger on 13 October 2004 by Mr. John Rihm.

2. The following rebuttal and comments concerning two issued is hereby forwarded.

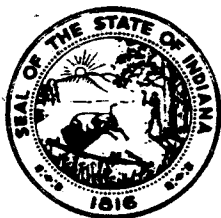
a. Employee Wages Treated as Contractor Payments. Corrections to Internal Revenue Service Publication 15 are being corrected. Reference the two (2) attached documents, JFHQ-IN-CO, dated 26 July 2004, Subject: Armory Rentals – Custodian Fee Payments and Custodian Fee Reporting – Armory Rentals. These documents cause all fees and payment of wages and taxes to flow through the normal payroll (Warrant) system of the Auditor of State. The actual system implementation date is anticipated as of 25 October 2004.

b. Excessive Funds Retained. The State Armory Board (SAB) will continue to monitor this issue, but will not move funds from account to account as the money will be used by the Local Armory Boards for maintenance, repair and upkeep of the Local Armories. The Local Armory Boards work for and at renting the Armory and the State Armory Board feels the Local Armory Board (LAB) should retain the money for local use. Money does transfer from LAB to LAB as requested by the Higher Headquarters of the LABs and cost-sharing projects with the SAB. Accounting of moving money around from accounts from LABs to the SAB would also be costly. There is only one (1) SAB Accountant and the LABs Accountants are the Senior Full Time Federal Employees charged primarily with training, recruiting, and deploying soldiers.

3. Point of Contact for additional information is the undersigned at telephone number 317-247-3254.

  
DAVID T. SHORTER  
COL, (AUS, Retired)  
State Controller

CF:  
Major General R. Martin Umbarger  
Major General (Ret) Robert G. Moorhead



REPLY TO  
ATTENTION OF

# STATE OF INDIANA MILITARY DEPARTMENT

OFFICE OF THE ADJUTANT GENERAL  
2002 SOUTH HOLT ROAD  
INDIANAPOLIS, INDIANA 46241-4839

JFHQ-IN-CO

26 July 2004

MEMORANDUM FOR See Distribution

SUBJECT: Custodian Fee Reporting – Armory Rentals

1. This directive institutes a major change to the present method of reporting custodian fees associated with Armory Rentals and the method of payment to the individuals working an Armory Rental in the capacity of Custodian. This change to present operations is necessary to become compliant with Federal and State Internal Revenue Service regulations. Except as noted in this directive, the provisions of MDI Regulation 210-1, Operations and Management of Local Armory Boards, still apply.

2. General Concept. Any person working an Armory Rental as the Custodian will be paid for their work via a warrant (Check) issued by the Auditor, State of Indiana. This applies to State Employees (Building Service Workers) and most Indiana National Guardsmen. This same procedure also applies to those individuals working as security for the rental in addition to the custodian.

a. For State Employees.

(1) The pay due for working the rental will be included in the next scheduled warrant (pay check), which is issued every two weeks.

(2) IRS Form 1099 INCOME will be eliminated. The Custodian Fee income will be included on the State Employee's W-2 for tax purposes.

(3) The State Employee benefits from this change is in two ways. First, matching funds for retirement will increase the employee's monthly check upon retirement and secondly, a more standard, prompt and assured payment to the employee.

b. For all Non-State Employees.

(1) Non-State Employee's pay will be as stated in block 6; Custodial Fee, MDI Form 98. This is the present procedure in MDI Reg 210-1 dated 1 December 2000.

(2) Non-State Employees; a State of Indiana warrant within three weeks from the date the work was performed.

JFHQ-IN-CO

SUBJECT: Custodian Fee Reporting – Armory Rentals

(3) Those Non-State Employees will still receive an IRS Form 1099, INCOME. The IRS Form 1099, INCOME, will be generated by the Auditor, State of Indiana.

3. Specific Tasks.

a. Armory Board President/Armory Managers

(1) Include the individual's name performing the Custodial Service in the remarks section of paragraph 6, MDI Form 98, Armory Rental Agreement.

(2) Ensure the Custodial Fee, paragraph 6, MDI Form 98 is entered in hours worked and matches the hours worked on MDI Form 210, State Employee Rental Wage Claim. See JFHQ-IN-CO Memorandum, dated 15 July 04, Subject: Armory Rentals – Custodian Fee Payments, for details.

(3) Within two working days after the rental, fax a copy of the MDI Form 98 to JFHQ-IN-CO, ATTN: Accounting Supervisor. Fax number, four digit 3577 or (317) 247-3577. The cover sheet of the fax message will address who performed the Custodial work during the rental and number of hours worked. For those Non-State Employees working, a Form W-9 must be completed, faxed with the Form 98, and the original sent to this office, JFHQ-IN-CO, ATTN: Accounting Supervisor. A new Form W-9 will need to be completed for each new Fiscal Year, which starts on every 1 July and to make address changes.

(4) JFHQ-IN-CO will issue a reimbursement directive to the LAB for an amount due to the Treasurer, State of Indiana, for custodial fees paid to the personnel working rentals. Reimbursement checks, made payable to the Treasurer, State of Indiana, will be forwarded to JFHQ-IN-CO, ATTN: Accounting Supervisor, NLT 30 days from reimbursement directive date. The check will state the individual's name, and amount in the memo section of the check. Separate checks are required for each custodian fee payment.

(5) Armory Board Presidents/Armory Managers will NOT issue a check directly to the Building Service Worker or other authorized individual performing the custodial work during a rental.

b. State Personnel, JFHQ-IN-SP.

(1) Coordinate with the Controller's Office to ensure payments to those individuals performing the custodial duties during Armory Rentals.

JFHQ-IN-CO

SUBJECT: Custodian Fee Reporting – Armory Rentals

(2) Coordinate payrolls/payments (Claim Vouchers) with the Auditor's Office, State of Indiana, for both State Employees and Non-State Employees performing custodial work.

c. Controller's Office, JFHQ-IN-CO.

(1) Coordinate/cross check with State Personnel, JFHQ-IN-SP, to ensure timely payments to those individuals performing the custodial duties during Armory Rental.

(2) Collect Custodial fees from the LABs and deposit the month in the Adjutant General's Agency Account, MOP.1.

(3) Implement internal controls in coordination with State Personnel(JFHQ-IN-SP and State Auditors (JFHQ-IN-AU).

4. This directive will implement these changes, effective 1 September 2004. The Controller's Office will generate IRS Form 1099, Income, NLT 30 September 2004 for all individuals who have worked as custodians and/or security during Armory Rentals. The guidance contained in this directive will be added to MDI Regulation 210-1.

5. POC concerning this issue is Colonel (Retired) David T. Shorter, State Controller, at (317) 247-3254.



DAVID T. SHORTER  
COL, (AUS, Retired)  
State Controller

DISTRIBUTION:

1 – Each LAB Member

JFHQ-IN-CDR

JFHQ-IN-DCAR

JFHQ-IN-DCAI

JFHQ-IN-CS

JFHQ-IN-JA

JFHQ-IN-CO

JFHQ-IN-SP

JFHQ-IN-AU



REPLY TO  
ATTENTION OF

**STATE OF INDIANA  
MILITARY DEPARTMENT**

OFFICE OF THE ADJUTANT GENERAL  
2002 SOUTH HOLT ROAD  
INDIANAPOLIS, INDIANA 46241-4839

JFHQ-IN-CO

26 July 2004

**MEMORANDUM FOR SEE DISTRIBUTION**

**SUBJECT: Armory Rentals – Custodian Fee Payments**

1. During a State Board of Accounts Audit of this Agency's records, it was discovered the Agency was not in full compliance with a Federal Internal Revenue Service regulation. The regulation outlines the collection and payment of taxes and relates to wages being paid to personnel working as Custodians and/or security during Armory Rentals.
2. The following policy will be effective 1 September 2004 in order to become compliant with Federal and State Internal Revenue Service Regulations.
  - a. State Employees working an Armory Rental will be compensated for the time worked on their normal bi-weekly paycheck received from the State. Compensation for custodial services during the rental will be calculated according to Title 31 and/or the union settlement as they pertain to overtime.
    1. For all hours worked not in excess of forty (40) hours in a week, an overtime eligible employee shall be paid his/her regular hourly rate. Overtime shall comprise "hours of work" in excess of forty (40) hours in a work week and shall be paid at a time and one-half rate.
    2. Holidays, sick days, vacation days, personal days leaves of absence, comp time off, and lunch periods does not constitute "hours of work" for purposes of overtime.
    3. Employees eligible may be granted comp time in lieu of monetary payment for overtime work.
  - b. The attached MDI Form, State Employee Rental Wages Claim, will be forwarded to the State Human Resource Office along with the normal time and attendance report for the BSW to ensure payment on the next scheduled paycheck.
  - c. At the end of the calendar year, State Employees will no longer receive an IRS Form 1099 for tax purposes. The State Employee will receive only their W-2.

JFHQ-IN-CO

SUBJECT: Armory Rentals – Custodian Fee Payments

3. If a State Employee/BSW has already worked a rental(s) during calendar year 2004, then an IRS Form 1099 will be issued for that work/compensation. Non-State Employees authorized to work rentals as Custodians/Security also will receive an IRS Form 1099 generated by the Auditor, State of Indiana.

4. Non State Employees working rentals as custodians/security will be paid via a State of Indiana Warrant (Paycheck).

5. POC for additional information or clarifications is the undersigned at telephone number (317) 247-3254 or Ms. Karen Manley at (317) 247- 3260.



DAVID T. SHORTER  
COL, (AUS, Retired)  
State Controller

DISTRIBUTION:

1 – Each LAB President  
1 – Each LAB Armory Manager  
1 – Each BSW  
JFHQ-IN-CDR  
JFHQ-IN-DCAR  
JFHQ-IN-DCAI  
JFHQ-IN-CS  
JFHQ-IN-JA  
JFHQ-IN-SP  
JFHQ-IN-AU

**NON STATE EMPLOYEE RENTAL WAGE CLAIM**

MILITARY DEPT. OF INDIANA  
JFHQ-IN-CO  
ARMORY RENTAL PROGRAM

**DISTRIBUTION:**

Mail original form WITH COPY OF W-9 to:  
JFHQ-IN-CO Attn: Accounting Supervisor  
2002 S. Holt Road Bldg. #1 Room 180  
Indianapolis, IN 46241

Bi-weekly pay period  
Sunday, \_\_\_\_\_ through Saturday, \_\_\_\_\_ 20\_\_

NON STATE EMPLOYEE RENTAL WAGE CLAIM				
ARMORY MANAGER NOTE: To avoid delay in processing be sure all answers are completed and this form is mailed with a copy of the W-9.				
NAME OF NON EMPLOYEE		ARMORY		
NON EMPLOYEE ADDRESS (City, State, Zip Code) MUST MATCH W-9		TELEPHONE NUMBER		
	RENTAL DATE	RENTAL AGREEMENT NUMBER/S	RECEIPT NUMBER/S	AMOUNT
S				
M				
T				
W				
T				
F				
S				
S				
M				
T				
W				
T				
F				
S				
TOTAL AMOUNT				

I hereby certify that this is a true and complete statement to the best of my knowledge and belief. I understand that a fraudulent misstatement of the total amount earned in completing this form will result in disqualification of eligibility for benefits.

NAME OF CLAIMANT	SIGNATURE OF CLAIMANT	DATE
ARMORY MANAGER NAME	AUTHORIZING SIGNATURE	DATE

**THIS INFORMATION IS TO BE COMPLETED BY JFHQ-IN-CO ACCOUNTING PERSONNEL.**

SIGNATURE	DATE	TOTAL WAGES PAID
-----------	------	------------------

**THIS INFORMATION IS TO BE COMPLETED BY ARMORY MANAGER. Make reimbursement check payable to: TREASURER OF THE STATE OF INDIANA**  
Mail to JFHQ-IN-CO Attn: Accounting Supervisor with a copy of the Non State Employee Claim Form.

CHECK NUMBER	AMOUNT	DATE
--------------	--------	------



**EMPLOYEE ATTENDANCE REPORT**

State Form 14304 (R3 / 12-97)

**A-4**

Approved by State Board of Accounts 1997

FAX to JFHQ-IN-SP at

**DSN: 369-2418****Commercial: (317) 247-3418****INSTRUCTIONS**

1. This form must be completed by each employee and approved by the immediate supervisor (except where use of an alternate attendance report has been approved by the State Board of Accounts).
2. Enter number of hours rounded to the nearest quarter hour (15 minutes = .25; 30 minutes = .50; 45 minutes = .75; 60 minutes = 1.00).
3. On the day that holidays are observed, enter in the Holiday box the number of hours you would normally have been scheduled to work. If you worked the holiday, also enter in the Other Compensable Hours worked box, all hours actually worked.
4. All overtime must be pre-approved. For payable overtime, you will only be paid the overtime if total hours for the week meet overtime requirements.
5. Working hours in excess of the minimum required does not entitle an overtime exempt employee to overtime pay or compensatory time off unless special authorization has been received for this pay period. Special overtime pay authorization should be explained in the comments section. Compensatory time accrued or used by exempt employees should also be recorded on the Compensatory Time Worksheet.
6. If an absence is covered by the Family and Medical Leave Policy, enter the hours of absence in the appropriate Paid or Unpaid Leave box AND in the Family and Medical Leave box.
7. Total regular hours should equal bi-weekly schedule (for example 75.00). This includes regular hours worked, holiday pay, vacation, sick, personal, compensatory and other leave hours.

Name of Employee

Worksite / Section / Armory

Bi-weekly pay period

Sunday, through Saturday,

**TIME ENTRY**

DESCRIPTION	S	M	T	W	T	F	S	S	M	T	W	T	F	S	TOTAL HOURS
Hours worked															
Regular Overtime- Compensatory															
Regular Overtime- Wages															
Holiday															
Vacation Leave															VA
Sick Leave															SK
Personal Leave															PR
Compensatory Leave USED															
Funeral Leave (Specify Relative Below)															
Military Leave															
Jury Duty															
Leave Without Pay															
Other Leave (specify below)															
Family and Medical Leave															
Rental Overtime - Compensatory															
<b>Rental Overtime - WAGES</b>															

For Rental Overtime you must attach MDI Form 210

**Total Regular Hours****Overtime Summary to be completed by payroll clerk (MDI-SP)**

Week1:

Regular Overtime

Premium Overtime

Week2:

Regular Overtime

Premium Overtime

Total Compensatory Hours Accrued This Pay Period:

Regular

+ (

Premium x 1.5) =

Total Other Hours Payable This Pay Period:

Regular

+ (

Premium x 1.5) =

**I certify this report is correct.**

Signature of employee (claimant)

Date signed

Approved by:

Date signed

☐ See additional information on back of form☐ See attachments